EXCISE

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Department of State

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TELEGRAM

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PAGE Ø1 TRIPOL Ø1ØØ3 141844Z

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INFO AMEMBASSY BENGHAZI
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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY _____ DATE 8/2181
PORTIONS DENIED AS INDICATED

S E C R E T TRIPOLI 1003

LIMDIS

SUBJ: OIL SITUATION

REF: STATE 71215 AND 72332; LONDON 3719 (NOTAL)

1. LARG SEEMS TO HAVE CONCLUDED ONLY WAY TO OBTAIN SIGNIFICANT CONCESSIONS FROM OIL COMPANIES IS THROUGH THREATS AND REPRISALS. LIBYAN EXPERIENCE WITH PRESENT AND PAST NEGOTIATIONS EASILY WOULD LEAD THEM TO THIS CONCLUSION.

2. FROM OPENING OF PRICE TALKS IN JANUARY UNTIL THREATENING SPEECHES BY QADHAAFI AT TOBRUK 31 MARCH AND AT BAIDA 8 APRIL, COMPANIES HAD FIRMLY REFUSED TO MAKE PRICE CONCESSIONS. OVER THIS PERIOD TALKS HAD ESCALATED FROM MINISTRY PETROLEUM COMMITTEE TO MINISTER PETROLEUM LEVEL, AND MINPET AND UNDERSEC COMBINED HALVING OF ORIGINAL 44 CENT PRICE DEMAND WITH INCREASINGLY URGENT APPEALS FOR RESPONSIVENESS BY COMPANIES (TRIPOLI 710 AND PREVIOUS). UNTIL THESE SPEECHES COMPANIES, ESPECIALLY MAJORS, BELIEVED THAT RESISTING ANY RPT ANY PRICE INCREASE WAS HAVING DESIRED EFFECT OF REDUCING LIBYAN DEMANDS. OFFERS BY ESSO AND OXY PROMPTLY FOLLOWED QADHAAFI'S THREATS AT BAIDA (TRIPOLI 680 AND 710). IN RETROSPECT, RCC MAY HAVE ACCEPTED HARD LINE ADVOCATED BY MAGHRABI (WHO NOW LEADS NEGOTIATIONS) BY TIME OF

2

SECRET

TRIPOLI 1003, 5-147

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Department of State **TELEGRAM**

SECRET

PAGE 02 TRIPOL 01003 141844Z

BAIDA SPEECH, AND WHEN TALKS REOPENED, DEMANDS WERE GREATLY INCREASED.

3. LARG'S NEW INTRANSIGENCE HAS MADE COMPANIES MORE ACCOMMODATING: A) ESSO [redacted] HAS TOLD PRICE COMMITTEE ESSO IS PREPARED TO IMPROVE O[redacted] ITS OFFER TO MINPET BUT CANNOT MEET 44 CENTS; B) [redacted] C) CONSIDERATION BY OXY, INDIRECTLY COMMUNICATED TO COMMITTEE, OF SUBMITTING NEW PRICE OFFER AND OTHER INDUCEMENTS. NOTING CHANGE IN COMPANIES' ATTITUDE, LARG PROBABLY HAS CONCLUDED, AS COMPANIES DID EARLIER, THAT INTRANSIGENCE PAYS. HAVING UNDERMINED THEIR CREDITABILITY NOW AND IN PAST (E.G., 1965 STATEMENTS BY GRACE PETROLEUM THAT COMPANY COULD NOT AFFORD TO OPERATE IN LIBYA IF IT WERE TAXED ON POSTED RATHER THAN REALIZED PRICES ARE BEING THROWN BACK IN CURRENT NEGOTIATING SESSIONS), COMPANIES ARE NOT BELIEVED WHEN THEY TELL LARG ITS DEMANDS ARE BEYOND THEIR ABILITY TO PAY. B4

4. NEXT FEW WEEKS PROMISE TO BE TENSE. MAGHRABI COMMITTEE APPEARS TO BELIEVE ITS DEMANDS WILL BE MET IN FULL, OR AT LEAST SUBSTANTIALLY, IF SUFFICIENT PRESSURE APPLIED. COMPANIES EMPHASIZE THAT DEMANDS CANNOT BE MET. [redacted] OXY HAS BEEN GIVEN NO CHOICE AND ESSO HAS ADOPTED ITS POSITION AFTER REPEATED EXPRESSIONS OF WILLINGNESS TO OFFER PRICE INCREASE HAS BEEN MET BY COMMITTEE'S INSISTENCE THAT ITS DEMANDS BE ACCEPTED IN FULL. IN LIGHT THIS STALEMETE, NO NEW OFFERS HAVE BEEN MADE. ESSO'S MAY 12 TALKS WERE STERILE WITH NO FURTHER SESSION SCHEDULED. B4

5. SPECULATION RE UNILATERAL ACTION TO WHICH LARG MIGHT RESORT EMBRACES FOLLOWING PHASED ACTIONS: A) CONTINUE HARASSMENT OF ALL COMPANIES BY VIRTUAL BAN ON EMPLOYMENT OF ADDITIONAL EXPATRIATES, ISSUANCE OF CAPRICIOUS TECHNICAL ORDERS AND FURTHER RESTRICTION OF OXY'S PRODUCTION; B) OPEN TALKS WITH OTHER COMPANIES, WHILE APPLYING REPRISALS AGAINST ESSO AND, POSSIBLE, REVOKING OCCIDENTAL'S CONCESSION; C) APPLY SOME COMBINATIOCW OR CUSTODIANSHIP OVER COMPANIES, GENERAL PRODUCTION RESTRUCTION, AND ATTEMPT TO TAKE CRUDE AT COST FOR DIRECT MARKETING.

6. ESSO, AT LEAST, BELIEVES SOME COMPRISE COULD RESULT FROM THIS SHAMBLES, AT LEAST INSOFAR AS ITS OWN INTERESTS ARE CONCERNED. I AM

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Department of State **TELEGRAM**

SECRET

PAGE 03 TRIPOL 01003 141844Z

LESS SANGUINE AND AM PARTICULARLY CONCERNED RE OXY. WHILE THAT COMPANY'S SITUATION APPEARS UNIQUE, THERE ARE DEFINITE SIGNS THAT LARG ALREADY HAS KNIVES OUT, WITH MAGHRABI COMMITTEE INTIMATING DURING TALKS THAT LARG HAS CASE FOR REVOKING CONCESSION ON GROUNDS OF CORRUPTION. OXY'S PRESENT MANAGERS WERE NOT WITH COMPANY WHEN CONCESSIONS WERE OBTAINED [redacted] B4
[redacted] DEPARTMENT MAY BE IN BETTER POSITION ASSES THESE FACTORS THAN IS EMBASSY.

7. IN THIS SITUATION I SEE LITTLE THAT CAN BE ACCOMPLISHED BY USG OFFERING TO ACT AS CONVEYOR OF INFORMATION. TO MAKE SUCH A PRECISE OFFER TO PRESENT REGIME COULD LEAD TO OUR ENTRAPMENT IN DETAILS OF NEGOTIATION AND FURTHER COMPLICATE AN ALREADY DANGEROUS SITUATION. I THEREFORE PROPOSE TO TAKE THE FOLLOWING LINE WHEN I MEET WITH QADHAAFI OR JALLUUD:

A. WHILE USG IS NOT A PARTY TO THESE NEGOTIATIONS BETWEEN TWO CONTRACTING PARTIES, [redacted] B5

B. BEFORE MY DEPARTURE TO US, I WAS ENCOURAGED BY OBVIOUS WILLINGNESS OF COMPANIES TO NEGOTIATE TO ACCOMMODATE LARG DESIRES. I AM RELIABLY INFORMED THAT THIS CONTINUES TO BE POSITION OF COMPANIES.

C. USG IS, HOWEVER, DEEPLY CONCERNED BY RECENT TREND OF NEGOTIATIONS. EITHER RIGHTLY OR WRONGLY, COMPANIES ARE GAINING IMPRESSION THAT POSTED PRICE COMMITTEE IS DEMANDING FULL ACCEPTANCE OF ITS POSITION ON PRICE INCREASE AND MAY BE PREPARING TO IMPOSE THOSE DEMANDS BY RESORTING TO UNILATERAL ACTIONS. SUCH A POSITION WOULD, OF COURSE, CONSTITUTE A COMPLETE NEGATION OF ANY PRETENSE OF NEGOTIATIONS.

D. USG IS DEEPLY CONCERNED BY THIS APPARENT IMPASSE. IF LARG POSITION IS AS SET FORTH ABOVE, THIS WOULD BE QUITE CONTRARY TO ASSURANCES WHICH WERE CONVEYED TO US AND OTHER FRIENDLY NATIONS IMMEDIATELY AFTER REVOLUTION THAT LARG WOULD RESPECT ITS INTERNATIONAL ENGAGEMENTS. [redacted] B5

E. I CANNOT BELIEVE THAT THIS IS WHAT LARG HAS IN MIND AND AM CONFIDENT THAT, IF EACH SIDE WILL TRY TO IDENTIFY AND ACCOMMODATE BASIC INTERESTS OF OTHER, A SUCCESSFUL RESOLUTION OF THIS PROBLEM

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Department of State **TELEGRAM**

SECRET

PAGE 04 TRIPOL 01003 141844Z

CAN RESULT.

F. I WISH TO REITERATE THAT THIS IS PRIMARILY A MATTER BETWEEN THE PARTIES TO A CONTRACT AND THAT THE USG IS NOT DIRECTLY INVOLVED. IF, HOWEVER, THE RCC HAS ANY VIEWPOINTS WHICH IT WISHES TO PUT TO ME, I AM ALW PREPARED TO LISTEN AND TO BE AS HELPFUL AS I CAN BE IN THE I STS OF GOOD RELATIONS BETWEEN OUR TWO COUNTRIES.

8. I FYING THE RCC OF UGG'S SERIOUS CONCERN ABOUT PRESENT COURSE OF EVENTS, I WILL ENDEAVOR O DETERMINE IF POSITION OF MA-GHRABI COMMITTEE HAS FULL SUPPORT OF NATIONAL LEADERSHIP.

9. I ALSO WISH TO SUGGEST THAT EXPRESSIONS OF CONCERN FOR SECURITY OF OIL SUPPLIES BY CONSUMER GOVERNMENTS OR PROBING QUESTIONS BY RECOGNIZED PARTY SUCH AS IBRD OR RESPECTED INTERNATIONAL BANKER, MIGHT CAUSE LARG TO QUESTION ASSUMPTION THAT COMPANIES CAN MEET ITS DEMANDS OR THAT UNILATERAL ACTION WOULD BE IN ITS OWN INTEREST.

10. DEPARTMENT'S THOUGHTS WOULD BE APPRECIATED. GP-4.
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